

April 29, 1963

MR. Andrew E. Raddock, Director  
Bureau of Retirement and Insurance  
United States Civil Service Commission  
Washington 25, D. C.

Dear Mr. Raddock:

With reference to your letter of March 13, 1963, please be advised that the question of changing the period of coverage for the Association contract to a fourteen month basis, from November 1, 1963 to December 31, 1964, and that the contract thereafter be on a calendar year basis has been considered by this office. To make this change or to continue to operate in the present contractual manner has no relevant bearing on our operations so that any decision made on this matter would be quite satisfactory.

Government Employees Health Association, Inc. does not plan to make any contract changes for the ensuing year.

Very truly yours,

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President

UNITED STATES CIVIL SERVICE COMMISSION  
BUREAU OF RETIREMENT AND INSURANCE  
WASHINGTON 25, D.C.

RI:GJP:lgg  
March 13, 1963

[Redacted]  
President  
Government Employees Health  
Association, Inc.  
Post Office Box 463  
Washington, D. C.

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All carriers participating in the FEHBP are being sent letters identical to this to inform them of proposed changes in the health benefits regulations as indicated in the attachment, and of other matters concerning the fourth contract term beginning November 1, 1963.

1. CONTINGENCY RESERVE

After almost three years, contingency reserves held by the Commission are for most plans approaching an amount equal to one month's subscription charges, a balance we consider adequate to provide for unforeseen emergencies. The contingency reserves are required by law to be used only to defray increases in future rates, to reduce the contributions of employees and the Government, or to increase benefits.

(a) Experience-rated Plans - We believe that an equitable and convenient method of fulfilling the requirements of the law for experience-rated carriers is to attempt to stabilize their reserves. Therefore, we are proposing in the change of section 89.23(c) of the regulations to pay to each experience-rated carrier, from the contingency reserve for its plan, the amount in excess of the minimum balance of one month's subscription charges but not more than is necessary to bring the total of the reserves held by the carrier for its Federal employee plan (including the special and incurred claims reserves but not including statutory reserves) to five months' subscription charges. Each reserve will continue, as heretofore, to be segregated for accounting and reporting purposes.

(b) Group-practice Plans - We are proposing in the change of section 89.23(c) of the regulations to make available to each group-practice plan, from its contingency reserve, the amount in excess of the minimum balance of one month's premium. Payment will be made upon request by the carrier of the amount in excess of the minimum balance but not greater than can be used to defray a needed rate increase.

*Rec'd. 1:30 p.m.  
4/12/63*

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## 2. DEADLINE FOR PROPOSING CONTRACT AMENDMENTS

We are also proposing an amendment to section 89.13 of the regulations which will require carriers to submit proposed changes in their health plans to the Commission at least six months in advance of the contract period for which they are intended. The amendment does not limit the Commission's power to propose changes at any time.

Past experience has shown that at least for the next contract term we will need a minimum of six months within which to review proposals from nearly 40 carriers, confer with each of them, prepare changes in brochures if need be, and print and distribute them to employees. We realize that this leaves a plan with less experience under the current year's contract than we would all like but by this time a plan should have the cumulative experience to arrive at a reasonably sound actuarial projection.

## 3. DEADLINE FOR COMMENTS ON REGULATION CHANGES

The amendments to the regulations will be published as proposed rulemaking in the Federal Register of March 16, 1963. You are invited to submit your comments on the proposed amendments to the Commission no later than April 15, 1963, but we would much prefer to have them as much earlier than that as possible so we can consider them and promulgate the amendments at the earliest date. If you have no comments we would appreciate also knowing that as soon as possible. We will notify you promptly if we make any changes in the proposed amendments as a result of carriers' and other comments.

## 4. DEADLINE FOR 4TH YEAR CONTRACT CHANGES

This letter is also the only official notice you will receive from us to present your proposals for the next contract period. Any changes in benefits or premium rates which you wish to propose to be effective November 1, 1963 must be submitted to the Commission no later than April 30, 1963. The proposal must be in writing, signed by an authorized official of your plan or organization and be specifically described - preferably in proper form for inclusion in your contract. We reserve the right to offer counter proposals but will not consider until November 1, 1963 any changes proposed by a carrier which reach the Commission after the deadline date of April 30. We will keep carrier proposals confidential until after all amendments to contracts have been approved by the Commission.

## 5. MATTERS TO CONSIDER IN PROPOSING 4TH YEAR CONTRACT CHANGES

In addition to our proposal for the use of the contingency reserve, some of the matters you will want to consider in determining your need for changes in benefits and rates are:

- (a) October 1963 Open Season - As you know, the regulations provide for an open season from October 1 to 15 this year during which employees who are not enrolled may enroll and enrolled employees may change from one plan or option to another and from self only to self and family.
- (b) Government Contribution - There will be no increase in the amount of the Government's contribution unless legislation for this purpose is enacted. Your proposals should be made on the assumption that any increase in subscription charges will be borne by employees.
- (c) Changes in Amount of Subscription Charges - You should consider the adequacy of your present or proposed subscription charge for each option on its own merits. We will of course, review present and proposed rates and, if appropriate, propose changes.
- (d) Changes in Benefits - You are free to propose increases or reductions in benefits. However, if a rate increase is necessary, we intend to make clear to employees what portion of the increase is attributable to the change in benefits and what portion is due to the claims experience of the plan; stated differently, no carrier will be permitted to hold out a nominal increase in benefits as a reason for an otherwise-necessary rate increase.
- (e) Advisability of Two Options - During the 1961 open season, enrollment in the high options of the different plans increased from 80% to 83% of the total enrollment, further decreasing enrollment in the low options. Except for the two Government-wide plans, which by law are required to offer two options, carriers may offer plans with only one option and we will approve proposals to eliminate low options. If a low option is withdrawn, employees enrolled in it will automatically be transferred to the high option of the same plan unless they register to change plans during the open season. Also, all reserves attributable to the low option are available for use by the remaining high option. Elimination of a low option will be permitted only in a year in which there is an open season.

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6. EXTENSION OF NEXT CONTRACT TERM

Many carriers have suggested that the next contract cover the 14-month period from November 1, 1963 to December 31, 1964 and that contracts thereafter be on a calendar year basis. We are therefore asking for an expression of opinion on this point from all carriers. Please let us know by April 30, 1963 whether (1) you favor the proposal and why, (2) you strongly object to the proposal and why, or (3) you have no strong preference either way and (4) a 14-month contract for the next contract period would affect your proposed subscription charges and, if so, how.

## SUMMARY OF DEADLINE DATES

Comments, if any, on the proposed regulations must be received by the Commission by April 15.

We would appreciate by April 30, your views on a 14-month contract for this next contract period.

Your proposals for contract changes must be received by the Commission on or before April 30. This deadline is firm and cannot be extended for any carrier. If you do not intend to propose any contract changes please also let us know as soon as possible, but no later than April 30. After April 30 we will be in touch with you on an individual basis with respect to your proposals and any modifications or proposals of our own we would like to have you consider.

Sincerely yours,

*Andrew E. Ruddock*

Andrew E. Ruddock  
Director

*Per [unclear]  
no need to write  
no comments on  
regulations  
4/15/63*

*no  
contract  
charges  
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PART 89 - FEDERAL EMPLOYEES HEALTH  
BENEFITS PROGRAM

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SUBPART B - APPROVAL OF PLANS AND CARRIERS

§ 89.11 Minimum standards for health benefits plans.

(a) \* \* \*

(9) Provide for a special reserve for the plan. The carrier shall account for amounts retained by it as reserves for the plan separately from reserves maintained by it for other plans. The carrier shall invest the special reserve and income derived from the investment of the special reserve shall be credited to the special reserve. If the contract is terminated or approval of the plan is withdrawn, the carrier shall return the special reserve to the Employees Health Benefits Fund. However, in the case of a group-practice plan, the carrier, without regard to the foregoing provisions of this subparagraph, shall follow such financial procedures as are mutually agreed on by the carrier and the Commission.

§ 89.13 Application for approval of, and proposal of amendment to, health benefits plans.

(a) Application for approval of comprehensive medical plans may be made by letter to the United States Civil Service Commission, Washington 25, D.C. Approval of a plan will become effective on a date to be set by the Commission for the plan. An application received less than 6 months in advance of a contract period will not be approved for that contract period.

(b) Any proposal for change in a health benefits plan shall be in writing, specifically describe the change proposed, and be signed by an authorized official of the carrier. The Commission will review a proposal for change and notify the carrier whether it accepts the change and may make

a counterproposal or at any time propose changes on its own motion. The Commission will not consider until after the expiration of the then current contract period any proposal for change which is received less than 6 months before the expiration of the then current contract period.

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#### SUBPART C - ADMINISTRATIVE PROVISIONS

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#### § 89.23 Reserves.

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(c) The contingency reserve for each plan is credited with (1) the three one-hundred and fourths of the enrollment charge set aside for the contingency reserve from the enrollment charges for employees and annuitants enrolled for that plan, (2) income from investment of the reserve, and (3) all dividends, rate adjustments, or other refunds made by the plan. The preferred minimum balance for the contingency reserve is 1 month's subscription charges at the average monthly rate paid from the Employees Health Benefits Fund for the plan during the most recent contract period.

When, as of the end of a contract period, the total of all the reserves held by a carrier (other than a group-practice carrier) for the plan amounts to less than the total of the last 5 months' subscription charges paid from the Fund to the carrier for the plan, the carrier is entitled to payment from the contingency reserve of the lesser of: an amount equal to the difference between the total of the reserves held by the carrier for the plan and the total of the last 5 months' subscription charges paid from the Fund to the carrier for the plan, or an amount equal to the excess, if any,

over the preferred minimum balance. The Commission shall authorize this payment after receipt of the accounting report for the contract period. The carrier shall credit the amount so paid to the special reserve for the plan.

If a group-practice carrier's contingency reserve exceeds the preferred minimum balance, the carrier may request the Commission to pay a portion of the reserve not greater than the excess over the preferred minimum balance. The carrier shall state the reason for the request. The Commission will decide whether to allow the request in whole or in part and will advise the plan of its decision.